

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

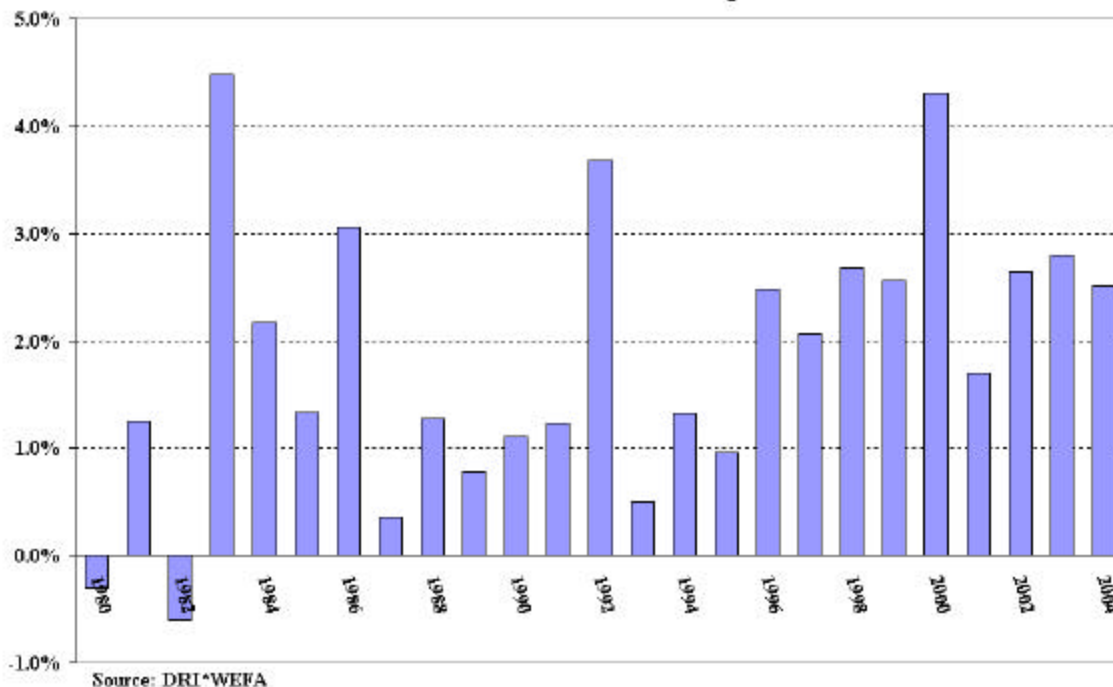
Division of Financial Management

Vol. XXIII, No. 3
July 2001

ISSN 8756-1840

- **Forecast 2001-2004**
- **The Future of the New Economy**
- **Alternative Forecasts**

U.S. Nonfarm Productivity Growth



**IDAHO
ECONOMIC
FORECAST
2001 - 2004**

State of Idaho
DIRK KEMPTHORNE
Governor

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07-01/385/010200-180-4001

PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges as Idaho. These challenges include competition among agriculture, fisheries, and expanding population, for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the June 2001 DRI*WEFA baseline forecast of the U.S. economy. The April 2001 *Idaho Economic Forecast* is based on the November 2000 Standard and Poor's DRI national forecast.

The productivity surge in recent years has been a welcome addition to the current economic expansion. For most of the 1970s and 1980s, growth of nonfarm output per hour proved disappointing, especially when compared to the gains experienced in the 1950s and 1960s. Rapid productivity growth returned in the second half of the 1990s. The cover graph includes both the recent history and short-term forecast of U.S. productivity growth.

FEATURE

The feature article is "The Future of the New Economy." It documents the sources of the increased productivity growth in the second half of the 1990s and the evidence for the New Economy and then provides a discussion of the prospects for growth over the next decade. This article was written by Charles I. Jones. Dr. Jones is an Assistant Professor at Stanford University and a Visiting Scholar at the Federal Reserve Bank of San Francisco.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI*WEFA examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1985 to 2004 and for every quarter from 1999 through 2004. The solution of the Idaho Economic Model for this forecast begins with the first quarter of 2001.

Descriptions of the DRI*WEFA U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

CHANGES

Global Insight announced on May 8, 2001 the formation of a new economic and financial information, forecasting, software, and consulting companying. A major part of this move merges two economic forecasting giants, Standard and Poor's DRI and WEFA, into a single entity that is known as DRI*WEFA. Prior to the merger, DFM contracted with Standard & Poor's DRI. Post merger, we are using the services of the new company DRI*WEFA. This change should have a minimal impact on the subscribers of the *Idaho Economic Forecast*.

The employment data that appear in this publication are based on monthly estimates provided by the Idaho Department of Labor. The Department of Labor has finalized employment numbers for 2000 and provided

estimates for the first three months of 2001. All of these data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM).

These current data show that Idaho nonfarm employment was slightly stronger (442) last year than had been previously estimated. Most of this change reflected the unanticipated strength in the fourth quarter of 2000. The goods-producing sector accounted for about a third of the annual revision, and the services-producing sector accounted for the remainder.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the last quarter of 2000. In addition to the new income estimates, the Idaho quarterly income estimates for the first quarter of 1997 through the third quarter of 2000 have been revised. The annual revisions to 1997 through 1999 Idaho total nominal personal incomes are less than \$50 million. The upward revision to the 2000 estimate was eight times as large as the other revisions, with the wages and salary payments and farm proprietors' income components accounting for most of this boost. The BEA will release its next round of Idaho personal income estimates in late July 2001.

These recent data revisions, as well as the availability of additional information, provided DFM with the opportunity to review and revise the Idaho Economic Model (IEM). As in the past, the model's structure was examined. As an integral part of this process, all of the stochastic equations in the model were reestimated and evaluated to take advantage of the most current data available. These equations were then incorporated into the IEM. A complete listing of the model's structure, as well as definitions for each of the endogenous and exogenous variables in the model, has been included in the Appendix of this publication.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at <http://www2.state.id.us/dfm/econinfo.htm>.

Hardcopy subscription rates for the *Idaho Economic Forecast*, which is published four times a year, are as follows:

Idaho State Government	No Charge
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